SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-71216; File No. SR-CHX-2013-23)

December 31, 2013

Self-Regulatory Organizations; Chicago Stock Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Provide that the Match Trade Prevention Modifier is Not Compatible With the Fill Or Kill Modifier

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),[1] and Rule 19b-4[2] thereunder, notice is hereby given that on December 23, 2013, the Chicago Stock Exchange, Inc. ("CHX" or the "Exchange") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I and II below, which Items have been prepared by the self-regulatory organization. CHX has filed this proposal pursuant to Exchange Act Rule 19b-4(f)(6)[3] which is effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

CHX proposes to amend Article 1, Rule 2(b)(3)(F) to provide that the Match Trade Prevention order execution modifier is not compatible with the Fill Or Kill order duration modifier. The text of this proposed rule change is available on the Exchange's Web site at (www.chx.com), on the Commission's Web site at (www.sec.gov), and in the Commission's Public Reference Room.

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1 15 U.S.C. 78s(b)(1).

2 17 CFR 240.19b-4.

3 17 CFR 240.19b-4(f)(6).

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the CHX included statements concerning the purpose of and basis for the proposed rule changes and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The CHX has prepared summaries, set forth in sections A, B and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange proposes to amend Article 1, Rule 2(b)(3)(F) to provide that the Match Trade Prevention ("MTP") order execution modifier is not compatible with the Fill Or Kill ("FOK") order duration modifier and that any limit or market order marked MTP and FOK shall be rejected by the Matching System.[4] Given that MTP has been incompatible with FOK since MTP became operative on December 2, 2013, the Exchange also submits this filing to correct certain statements in the Form 19b-4 filed by the Exchange under SR-CHX-2013-20, which inaccurately states that the MTP modifier is fully compatible with all order modifiers applicable to limit and market orders.[5] More accurately, the MTP modifier is fully compatible with all order

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4 Article 1, Rule 2(d)(2) defines "Fill Or Kill" or "FOK" as "a modifier that requires an order to be executed in full and for limit orders, at or better than its limit price, as soon as the order is received by the Matching System, but that will be immediately cancelled if it cannot be executed in full. An order marked FOK may be executed at one or more different prices against orders in the Matching System (including any Reserve Size or undisplayed orders).

An order marked FOK shall be deemed to have been received 'Do Not Route,' as defined under paragraph (b)(3)(A), which cannot be overridden by an order sender."

5 See Securities Exchange Act Release No. 70948 (November 26, 2013), 78 FR 72731 (December 3, 2013) (SR-CHX-2013-20) ("Notice of Filing and Immediate Effectiveness

modifiers applicable to limit and market orders, except for the FOK modifier, as discussed in detail below. The Exchange does not propose to substantively amend the functionality of the MTP modifier.[6]

Background

On November 20, 2013, the Exchange filed SR-CHX-2013-20 for immediate effectiveness, which adopted the current MTP order modifier, as defined under Article 1, Rule 2(b)(3)(F), and became operative on December 2, 2013.[7]

In sum, the MTP functionality is based on the interaction between MTP Trading Groups[8] and, if applicable, subgroups within the MTP Trading Group, which are created through the use of optional MTP sublevel designations. Assuming that the MTP functionality has been activated by the Trading Permit Holders that are part of the MTP Trading Group, an incoming limit or market order marked with an MTP modifier, which is comprised of a compulsory MTP Action and an optional MTP sublevel designation, will not be allowed to execute against a resting opposite side order from the same MTP Trading Group. However, if the MTP modifier of the incoming limit or market order indicates an MTP sublevel designation, the order will be considered to have originated from a subgroup within the MTP Trading Group, designated by the

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of a Proposed Rule Change to Adopt a Match Trade Prevention Modifier for Limit and Market Order Submitted to the Exchange").

6 The Exchange notes that it deactivated the FOK modifier as of December 4, 2013, pursuant to its authority under Article 20, Rule 4(b), and that the Exchange has never received any orders marked MTP and FOK.

7 See supra note 5.

8 Article 1, Rule 1(mm) defines "MTP Trading Group" as "a group of one or more Trading Accounts that have been aggregated at the request of all Participant Trading Permit holders that control all Trading Accounts within the proposed group for the purpose of enabling Match Trade Prevention ('MTP') functionality, pursuant to Article 1, Rule 2(b)(3)(F)(i). A Trading Account may not be assigned to more than one MTP Trading Group. Any Exchange-approved changes to the composition of an MTP Trading Group shall be effective no earlier than the trading day following the request."

sublevel value, and will only be prevented from executing against resting opposite side orders from the same subgroup (i.e., same optional MTP sublevel designation). Consequently, an incoming order that originated from a subgroup will not be prevented from executing against opposite side resting orders from the same MTP Trading Group, so long as the opposite side order is not part of the same subgroup (i.e., the resting order is either marked by a different MTP sublevel designation or is not marked by any MTP sublevel designation).

Once MTP is triggered, one or both orders will be cancelled pursuant to the MTP Action of the MTP modifier attached to the incoming order. If the incoming order has an MTP Action of "N," the incoming order would be cancelled. If the incoming order has an MTP Action of "O," the resting order would be cancelled. If the incoming order has an MTP Action of "B," both the incoming and resting orders would be cancelled. Moreover, if the incoming order is marked "I," MTP would be deactivated and would not prevent a match.

MTP and FOK

On p. 16 and p. 41 of SR-CHX-2013-20,[9] the Exchange stated that the "proposed MTP modifier is fully compatible with all order execution, display, and duration modifiers, that are applicable to limit and market orders."[10] While MTP and FOK are compatible in theory,[11] MTP and FOK are incompatible in practice because the Matching System currently handles an incoming order marked FOK in a manner that may result in the FOK modifier being ignored if

9 See supra note 5.

10 Id.

11 In contrast, Post Only and FOK are theoretically and practically incompatible. See Article 1, Rule 2(b)(1)(D). A limit order marked Post Only requires the order to be posted to the CHX Book or cancelled if the order would remove liquidity from the CHX Book. In contrast, a limit order marked FOK cannot post to the CHX Book and must remove liquidity from the CHX Book and be executed in full or be cancelled in its entirety.

(1) the incoming order must execute against two or more resting orders and (2) MTP is triggered by the second or subsequent resting orders.

Generally, when the Matching System receives an incoming limit order marked FOK, the Matching System will take the preliminary step of determining whether there is sufficient resting order size to immediately execute the incoming FOK order in full. In doing so, the Matching System only considers the total size of the resting orders necessary to immediately execute the incoming FOK order in full and does not pre-match the incoming FOK order against each of these resting orders. If there is not enough resting size, the Matching System will cancel the incoming FOK order. If there is enough resting size, the Matching System will next attempt to match the incoming FOK order against each of the resting orders necessary to execute the incoming FOK order in full and will execute such orders in price/time priority of the resting orders.[12] In considering each set of contra-side orders, the Matching System will consider all order modifiers attached to the contra-side orders, but will consider the MTP modifier(s) last.

Prior to adopting the MTP modifier, this process of handling incoming FOK orders was sufficient because there were no other order modifiers that could prevent a full and immediate execution of the incoming FOK order after the preliminary resting size test of the FOK modifier was satisfied. Thus, it was impossible for an incoming FOK order to be partially-executed. However, an incoming FOK order marked MTP could now result in a partial execution of an incoming FOK order. Specifically, if MTP is triggered by the second or subsequent resting order, there may not be enough resting size remaining to fully satisfy the incoming FOK order. Thus, an incoming FOK order could be cancelled with a partial execution, which would violate the FOK modifier. The following Examples 1 and 2 illustrate this scenario.

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[12] See Article 20, Rule 8(b).

Example 1. Assume that the Matching System receives an incoming limit buy order ("Bid A") for 1,000 shares of security XYZ priced at $10.10/share is marked FOK and MTP, with an MTP Action of "N" and no MTP sublevel designation, and originated from MTP Trading Group A1. Assume that the CHX Book for security XYZ contains no resting bids, but has two resting offers ("Offers A and B"). Assume that Offer A is a limit order for 500 shares of XYZ priced at $10.10/share marked MTP that originated from MTP Trading Group B1. Assume that Offer B is also a limit order for 500 shares of XYZ priced at $10.10/share marked MTP that originated from MTP Trading Group B1. Assume further that Offer A has time priority over Offer B and that Offers A and B are at the National Best Offer.

Under this Example 1, since Bid A is marked FOK, the Matching System will take the preliminary step of determining whether Bid A could be immediately executed in full. Given that Bid A is for 1,000 shares of XYZ priced at $10.10/share and Offers A and B are for a combined 1000 shares of XYZ priced at $10.10/share, the Matching System will determine that there is enough resting order size on the CHX Book to immediately execute Bid A in full. The Matching System will then attempt to match Bid A against Offer A. Since the non-MTP order modifiers attached to Bid A and Offer A do not conflict, the Matching System will next consider the MTP Trading Groups of the order because the incoming order is marked MTP with an MTP Action of "N." Since Bid A is from Trading Group A1 and Offer A is from Trading Group B1, MTP will not be triggered and the MTP Action of "N" will not come into play. As such, the Matching System will permit Bid A to execute against Offer A, which will result in Bid A being decremented by 500 shares. The Matching System will then go through the same process with the 500 remaining shares of Bid A and Offer B. Given that Offer B is identical to Offer A, the Matching System will go through the same process and permit the remaining 500 shares of Bid

A to execute against Offer B. The result is that Bid A has been immediately executed in full, which is consistent with the FOK modifier.

Example 2. Assume the same as Example 1, except that Offer B originated from MTP Trading Group A1, which is the same MTP Trading Group as Bid A.

Under this Example 2, MTP would prevent the remaining 500 shares of Bid A from executing against Offer B because both orders originated from MTP Trading Group A1. Pursuant to the MTP Action of "N," Bid A would be cancelled as it is the incoming order, while Offer B would remain posted to the CHX Book. As a result, Bid A would be cancelled with a partial execution (i.e., 500 shares of Bid A executed against the full size of Offer A), which is in violation of the FOK modifier. The result would be the same if Bid A were marked "O," as the "O" MTP Action would require Offer B to be cancelled and since there are no remaining resting orders against which Bid A could execute, Bid A would be cancelled with a partial execution. Similarly, if Bid A had an MTP Action of "B," both Bid A and Offer B would be cancelled, which would also result in Bid A being cancelled with a partial execution.

The Exchange notes that this issue could be resolved by having the Matching System pre-match an incoming FOK order against the required resting orders prior to executing any one trade. If the pre-match revealed that one or more of the resting orders could not execute against the incoming order due to MTP and that the result would be insufficient remaining resting size to fully and immediately execute the incoming FOK order, the pre-match would fail and the incoming FOK order would be cancelled without any partial executions. However, given the tremendous amount of resources needed to modify the Matching System to make this change and in light of the fact that the Exchange infrequently receives FOK orders, the Exchange proposes to reject all incoming orders marked MTP and FOK when the FOK modifier is reactivated.[13]

2. Statutory Basis

The Exchange submits that the proposed rule filing is consistent with Section 6(b) of the Act in general[14] and furthers the objectives of Section 6(b)(5) in particular,[15] because it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transaction in securities, to remove impediments to, and perfect the mechanisms of, a free and open market and, in general, by protecting investors and the public interest. Specifically, the proposed rule filing amending Article 1, Rule 2(b)(3)(F) to provide that the MTP modifier is not compatible with the FOK modifier and that orders marked MTP and FOK shall be rejected by the Matching System provides accuracy concerning a functionality already offered by the Exchange, which, in turn, promotes all of the objectives of Section 6(b)(5).

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed filing will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act because this filing clarifies the operation of the current MTP modifier and does not propose to modify its functionality.

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13 See supra note 6. If the Exchange decides to modify the operation of the Matching System to permit an order to be marked FOK and MTP, the Exchange will file a proposed rule change pursuant to Rule 19b-4 under the Act to effectuate such a change.

14 15 U.S.C. 78f(b).

15 15 U.S.C. 78f(b)(5).

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

No written comments were either solicited or received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

The Exchange has filed the proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act[16] and Rule 19b-4(f)(6) thereunder.[17] Because the proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative prior to 30 days from the date on which it was filed, or such shorter time as the Commission may designate, if consistent with the protection of investors and the public interest, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(6)(iii) thereunder.

A proposed rule change filed under Rule 19b-4(f)(6)[18] normally does not become operative prior to 30 days after the date of the filing. However, pursuant to Rule 19b-4(f)(6)(iii),[19] the Commission may designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has asked the Commission to waive the 30-day operative delay so that the proposal may become operative upon filing. The Exchange requested such waiver so that it may immediately provide accuracy as to the current functionality of the MTP modifier and address inaccurate statements in SR-CHX-2013-20. Based on the Exchange's statements, the Commission believes that waiving the 30-day operative

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16 15 U.S.C. 78s(b)(3)(A)(iii).

17 17 CFR 240.19b-4(f)(6).

18 Id.

19 17 CFR 240.19b-4(f)(6)(iii).

delay is consistent with the protection of investors and the public interest. Therefore, the Commission designates the proposed rule change to be operative upon filing.[20]

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is: (i) necessary or appropriate in the public interest; (ii) for the protection of investors; or (iii) otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings under Section 19(b)(2)(B)[21] of the Act to determine whether the proposed rule should be approved or disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission's Internet comment form (http://www.sec.gov/rules/sro.shtml); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR- CHX-2013-23 on the subject line.

Paper comments:

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

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20 For purposes only of waiving the 30-day operative delay, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

21 15 U.S.C. 78s(b)(2)(B).

All submissions should refer to File Number SR- CHX-2013-23. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (http://www.sec.gov/rules/sro.shtml). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street NE, Washington DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal offices of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File

Number SR- CHX-2013-23, and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[22]

Elizabeth M. Murphy
Secretary

[22] 17 CFR 200.30-3(a)(12).